



STATE OF INDIANA

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Christopher A. Ruhl
Director

October 17, 2007

Speaker B. Patrick Bauer
Indiana State House of Representatives
State House
Indianapolis, Indiana 46204

Dear Speaker Bauer,

As you know, on September 7, 2007, M-Plan announced to its members and customers that the company would exit the group health plan market. M-Plan was under contract with the State of Indiana to provide an HMO product to our employees through December 31, 2010. Effective January 1, 2008, M-Plan will no longer provide this option to the state. M-Plan cited "changes in the health care market that make it difficult for small, local health plans to compete." Despite the fact that the long-term sustainability and viability of the HMO model has been seriously questioned for years, M-Plan's sudden exit from the market one year after it was chosen as the state's provider was surprising. It was a unilateral decision made by M-Plan just a few weeks before the beginning of the state's open enrollment process for current employees and after months of preparations had already been made to implement Senate Enrolled Act 501.

SEA 501 establishes a new \$50 million per year health care benefit for elected state officials and state government employees upon their retirement from the state. Section 11 of SEA 501 established this benefit as a Health Reimbursement Arrangement (HRA). Without the approval from the Internal Revenue Service, funds in an HRA may only be used to pay premiums for fully insured health insurance policies.

At the time the legislation was debated and adopted, the M-Plan HMO was the only fully insured health insurance product offered by the state. All other health insurance plans are self-insured. Following M-Plan's voluntary decision to exit the market and cease offering its HMO product to state employees, there are no fully insured plans offered by the state for eligible recipients under SEA 501. I understand that many legislators specifically contemplated that state employees would purchase the fully insured M-Plan HMO product upon retirement with the benefits provided under SEA 501. Given M-Plan's recent decision to cease offering the HMO, that option is no longer available. Therefore, eligible recipients would have to secure a fully insured policy with the funds provided under SEA 501 in the private market (or may use the Welborn HMO if they live in southwestern Indiana.)

Recognizing the hardships that this may cause for those who anticipated purchasing their fully insured policy through the M-Plan HMO with the state, we are actively pursuing the following options for SEA 501 eligible recipients:

First, we are contacting other providers to request their interest in providing an HMO product to eligible recipients under SEA 501. We would note, however, that these products are likely to be

substantially more expensive than the current M-Plan HMO. An HMO product may also be less competitively priced than other insurance products that can be obtained in the private market. Additionally, there is no guarantee that any provider will be interested in providing coverage.

Second, we are evaluating whether to seek a Private Letter Ruling from the Internal Revenue Service that expands the use of the funds for other insurance products. However, this may require suspension of the current plan pending the IRS' ruling. We have also been informed that a ruling would likely take twelve to eighteen (12-18) months to obtain.

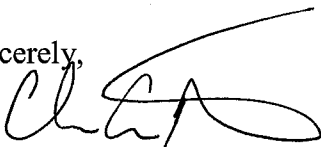
Third, we are evaluating whether eligible recipients would have greater flexibility if it were possible to provide funds in the HRA after taxes; whereby the recipient would incur an income tax liability on the entire initial contribution, but the restriction on fully insured plans would be waived. While this could provide additional flexibility, the economic consequences of reduced funding may outweigh any benefits. Moreover, the funds would likely be taxed regardless of whether or not they are ever used by a retiree.

Fourth, we are researching whether the state could partner with other organizations who may offer fully insured plans or supplemental insurance plans at discounted rates that could be purchased with HRA funds. In fact, early research indicates that Anthem currently offers a number of plans that retirees may be able to purchase at rates lower than the M-Plan HMO if it still existed.

The withdrawal of M-Plan from the group health market has resulted in an unexpectedly difficult situation for many eligible recipients under SEA 501. The administration is committed to considering options to mitigate this external disruption. Each alternative, of course, must be carefully considered.

We welcome additional suggestions from you and your staff.

Sincerely,



Christopher A. Ruhl
